

Bay Area Airline Passenger Traffic

Some Observations

Prepared by:
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For the:
Aviation Trends Panel
Regional Airport Planning Committee
Metropolitan Transportation Commission

“It’s probably not much fun being a forecaster, whether it’s the weather or the economy which you’re trying to predict. When you get it right, no-one seems to notice; but when you’re wrong, you may face ridicule or vilification.”

— Tony Latter, *The Perils of Forecasting*

1. Industry Conditions

2. Domestic Origin and Destination Traffic (O&D Traffic)

a) Airline Market Shares

b) Prices Matter

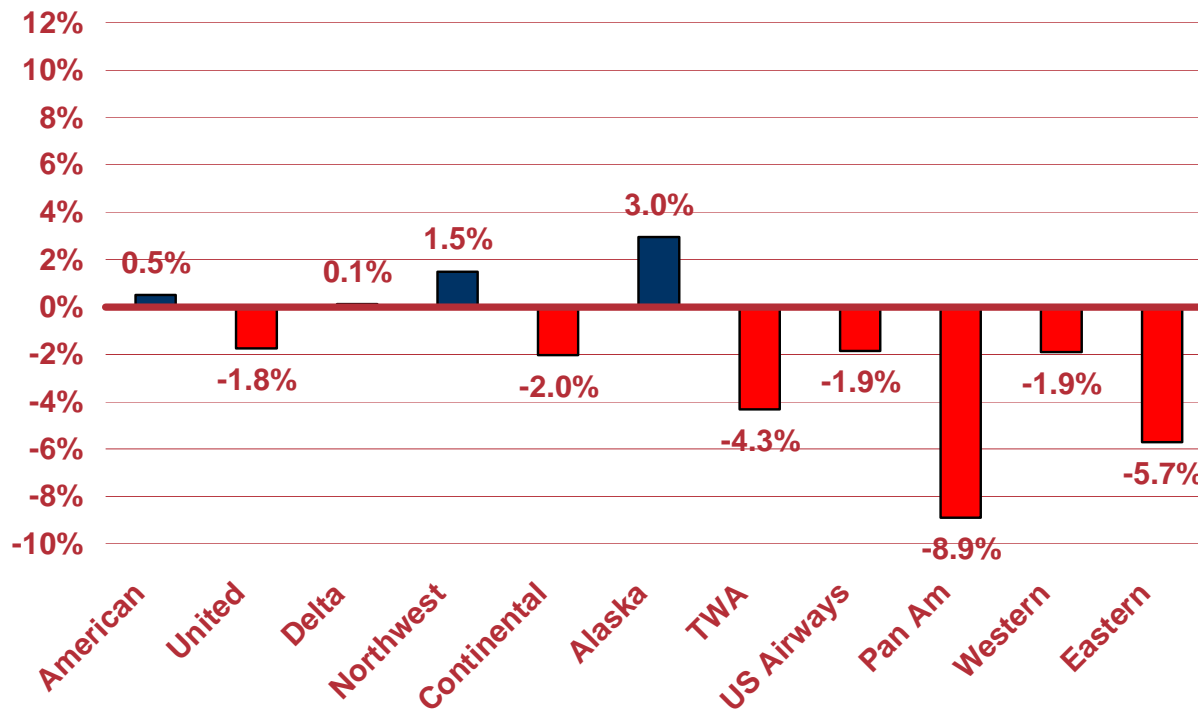
3. Connecting Traffic

4. International Traffic

5. Operations

**Industry conditions –
in fact the health of
individual carriers – have
a significant impact on
individual airports**

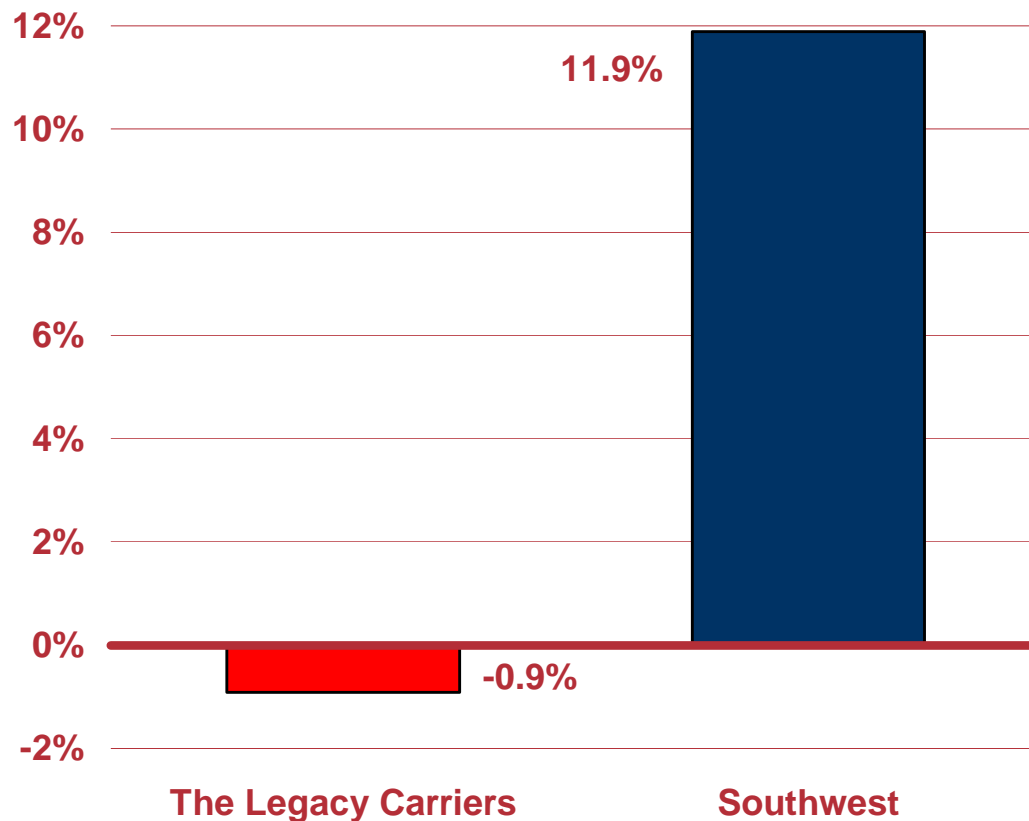
The legacy carriers are losing a battle for survival with the new generation airlines



Pretax Margin on Revenue, 1977 through Q1 2005

Since 1978, on revenues of US\$1.5 trillion, the US legacy carriers have lost \$14 billion, about 1%.

Well-managed new-generation carriers are successful.

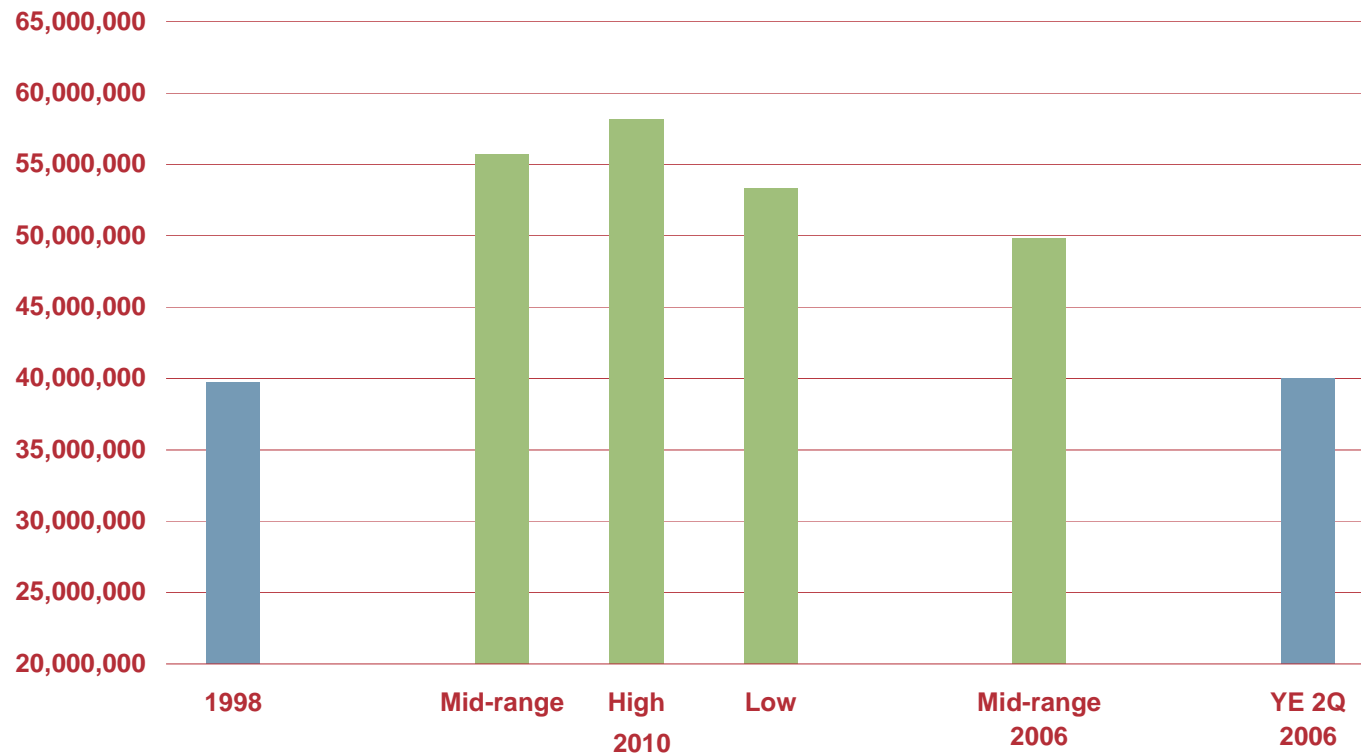


Pretax Margin on Revenue, 1977 through Q1 2005

Since 1978, on revenues of \$64 billion, Southwest has made pre tax profits of \$7.6 billion, 11.9%

Domestic Origin & Destination Traffic

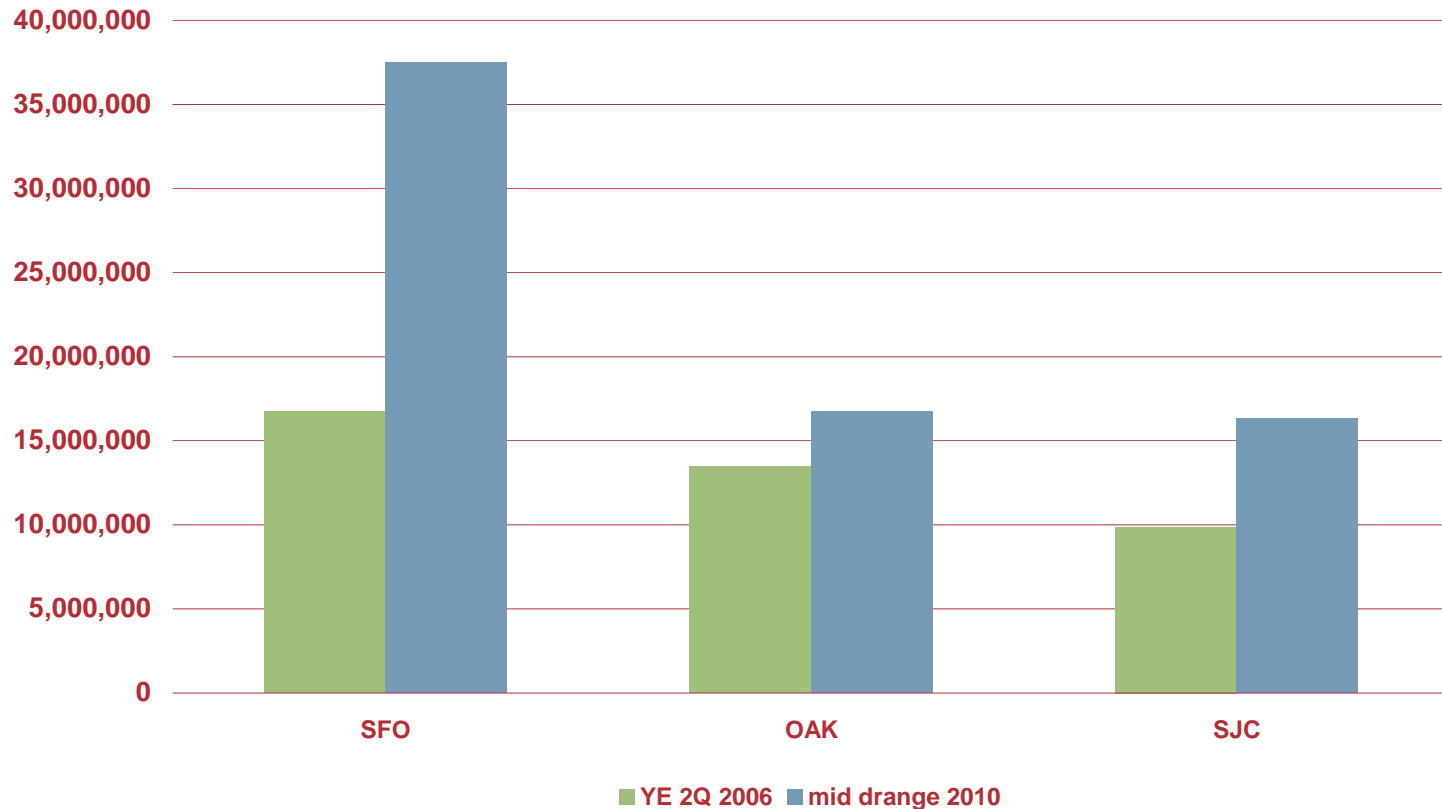
Bay Area domestic O&D traffic is only 0.7% greater than in 1998 and about 10 million passengers short of forecast



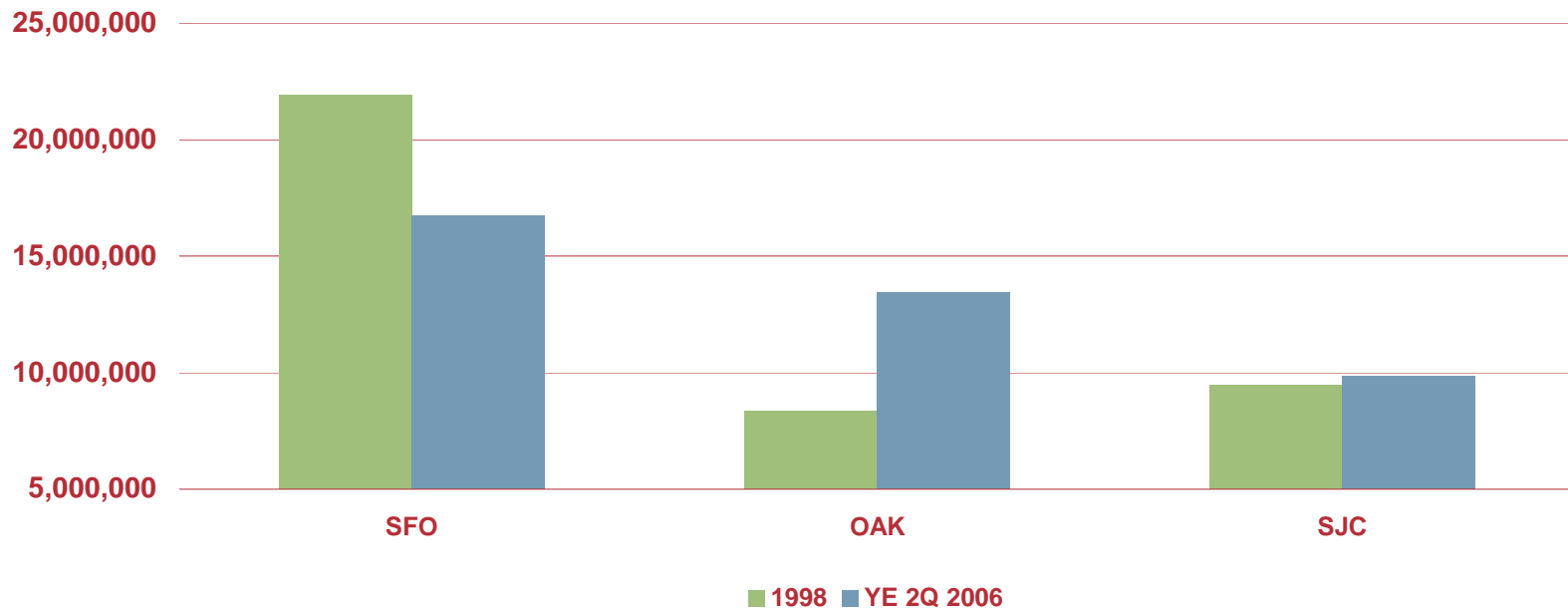
**This is only partly a result of the post 9/11
decline in airline traffic**



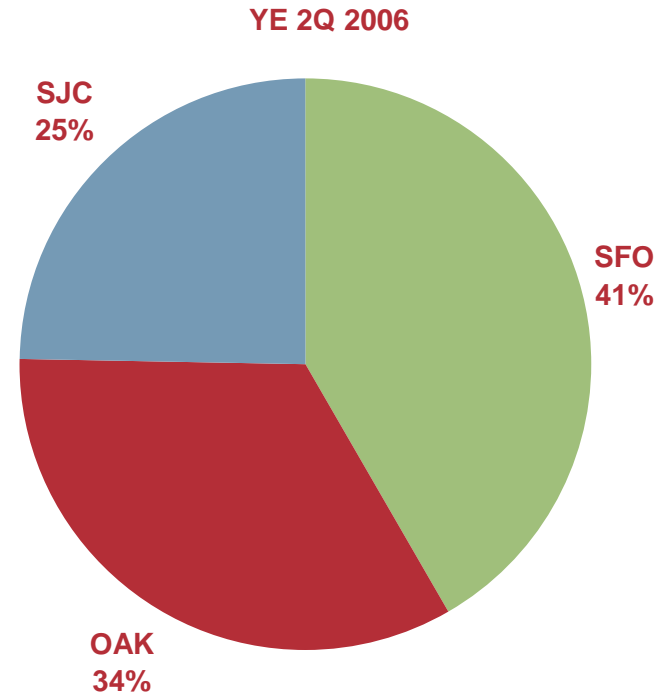
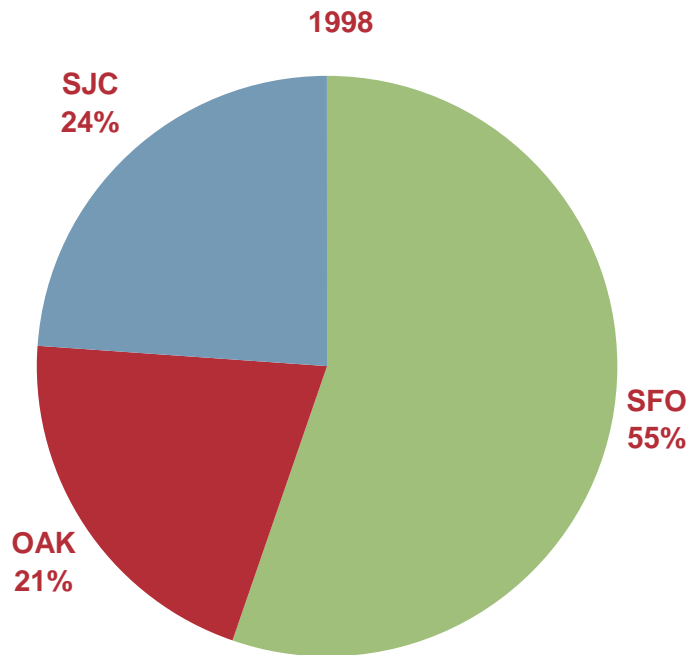
Rather it is primarily the result of a massive failure of SFO traffic to grow; indeed domestic O&D at SFO has shrunk



**SFO has suffered a near 25% decline in domestic
O&D traffic since 1998,
losing 5 million annual passengers**

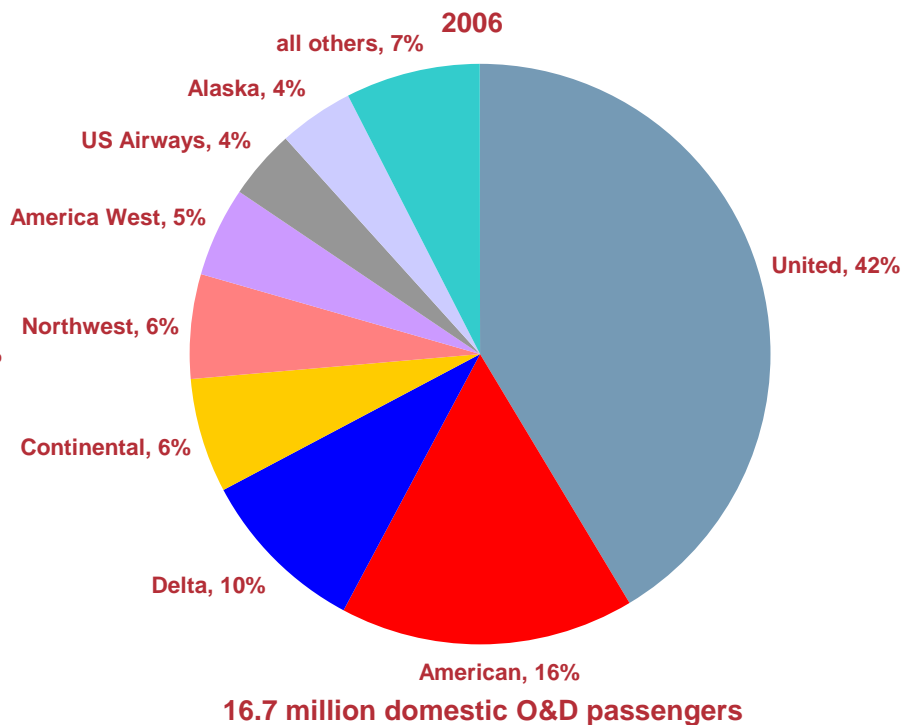
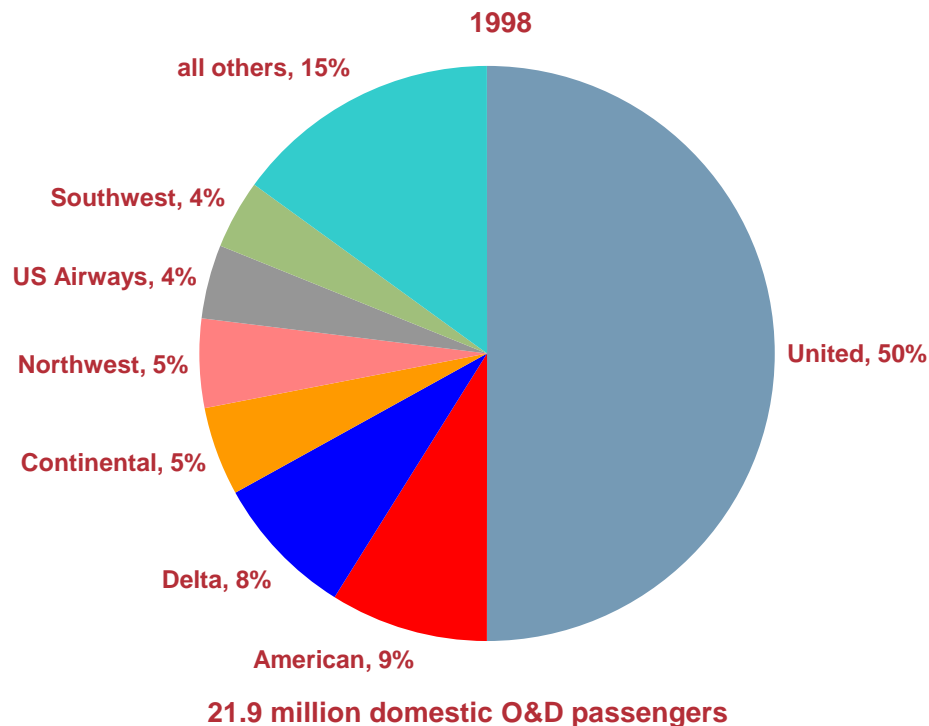


As a result, there has been a dramatic shift in market shares among the three airports

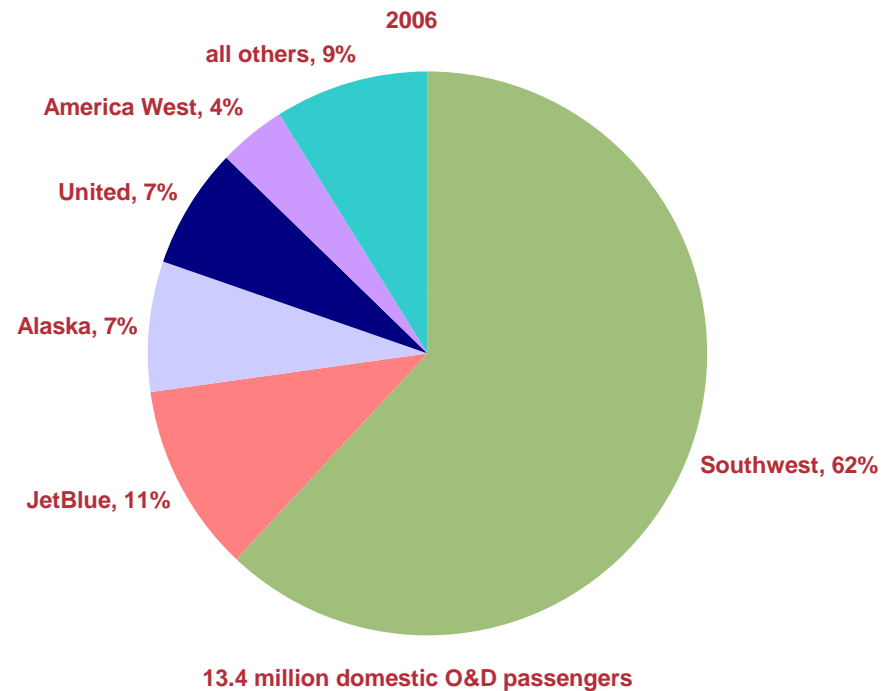
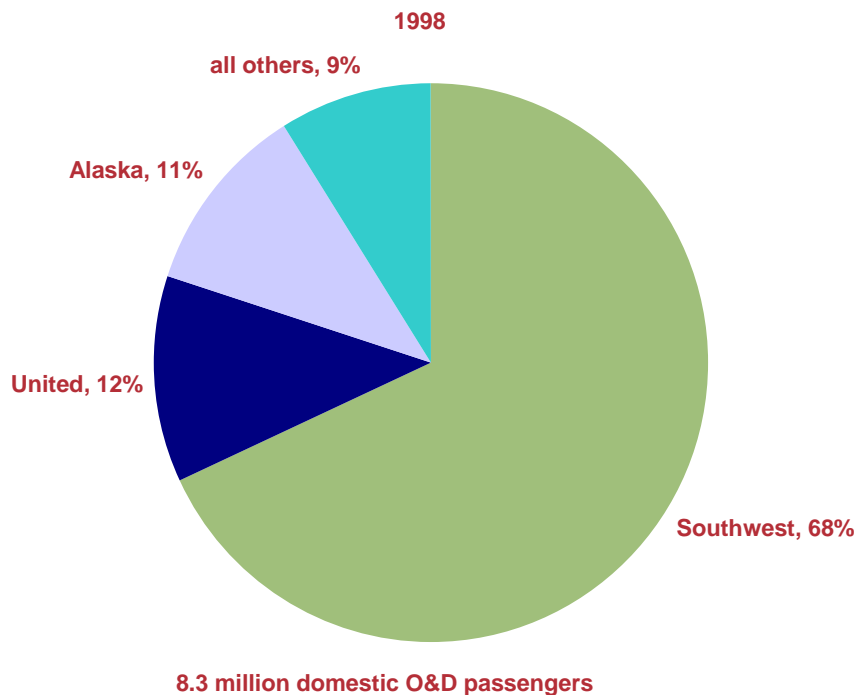


Domestic O&D Traffic – Airline Market Shares

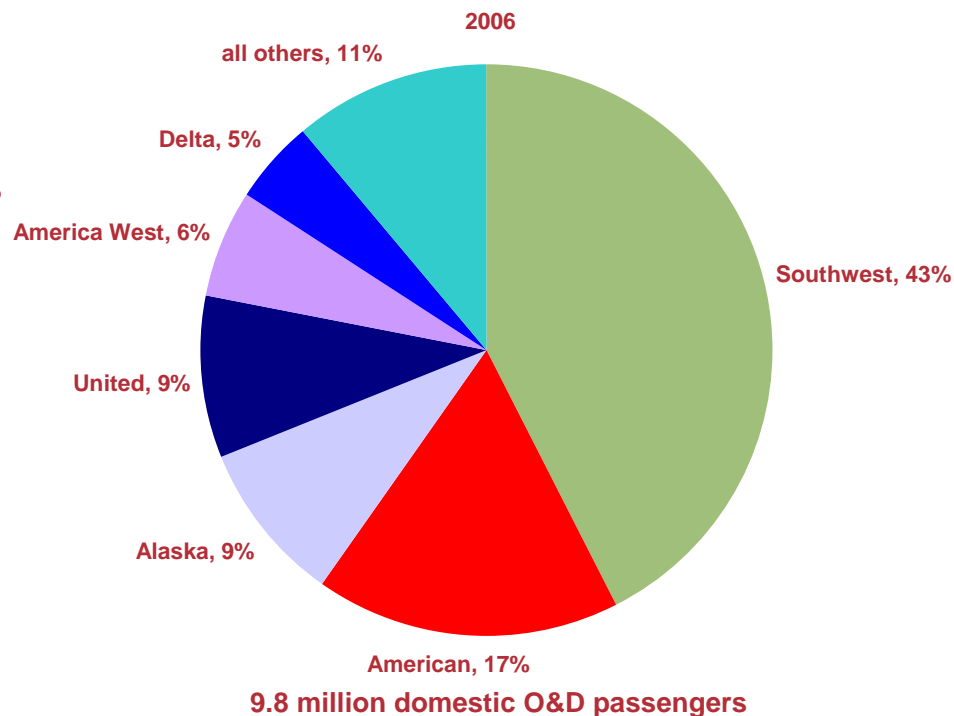
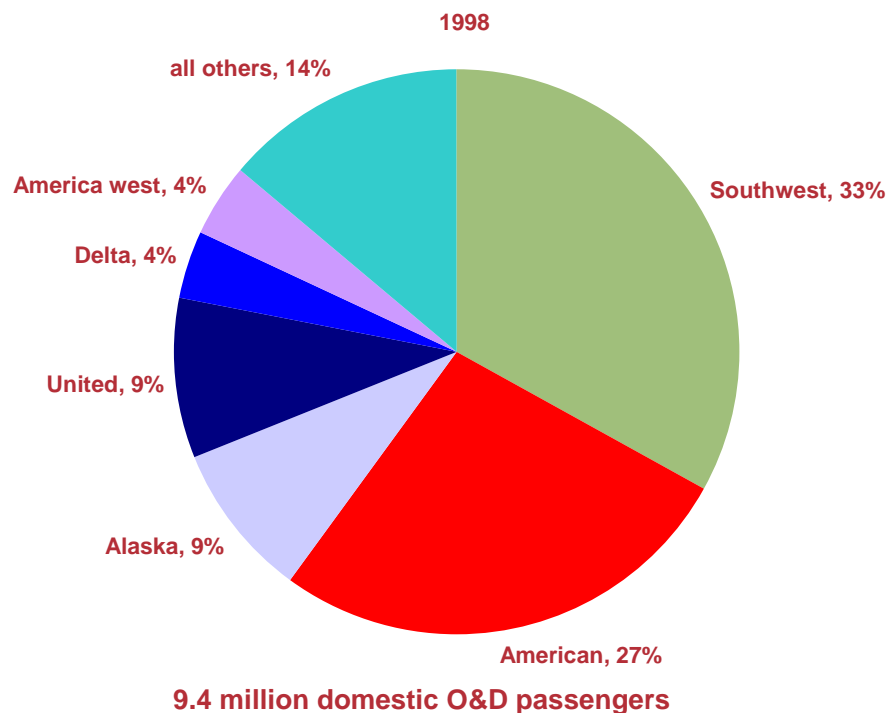
United has hemorrhaged market share at SFO



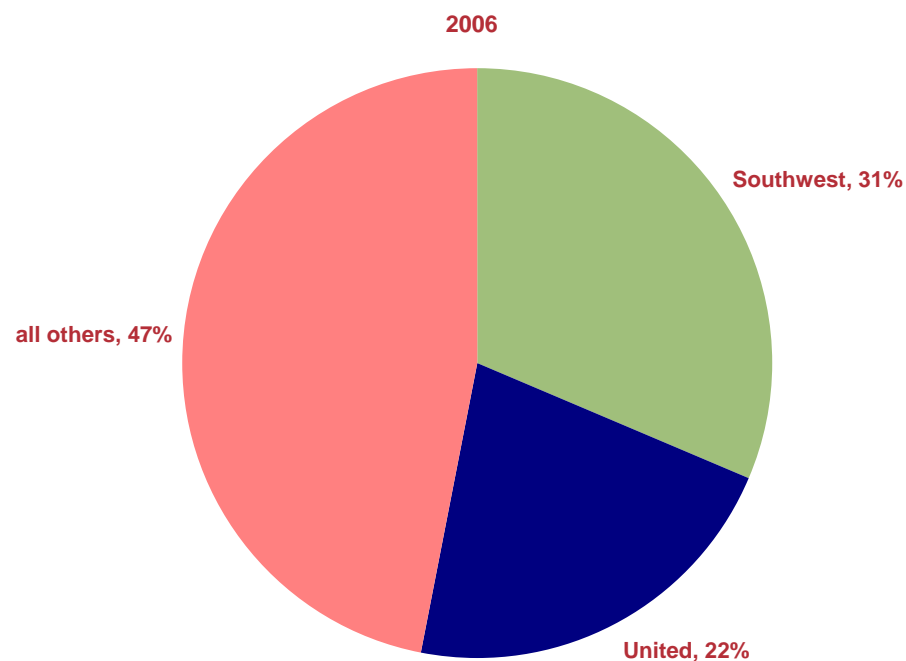
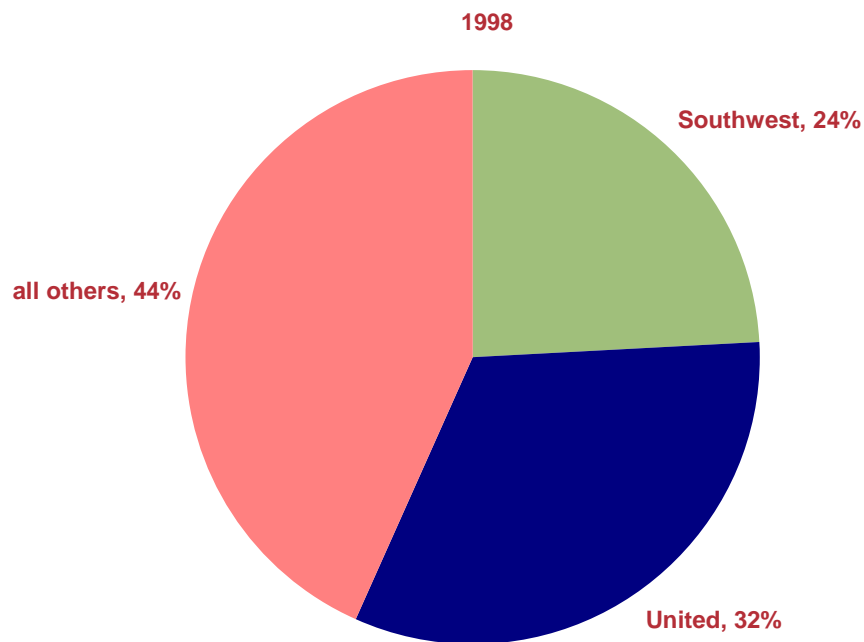
Southwest has gained traffic but lost market share at OAK



Southwest has gained market share at SJC

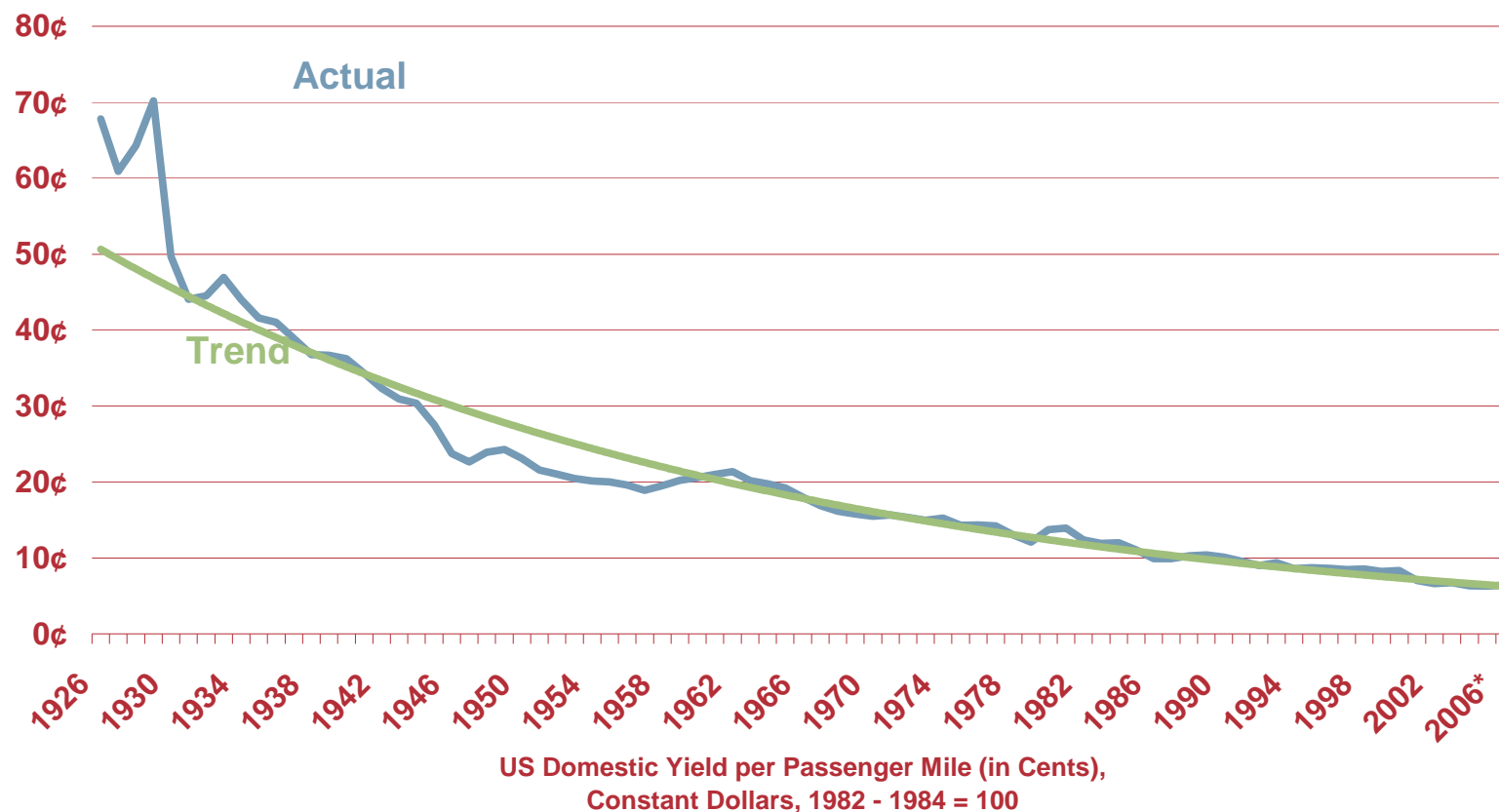


Bay Area Market Shares Have Changed a Lot

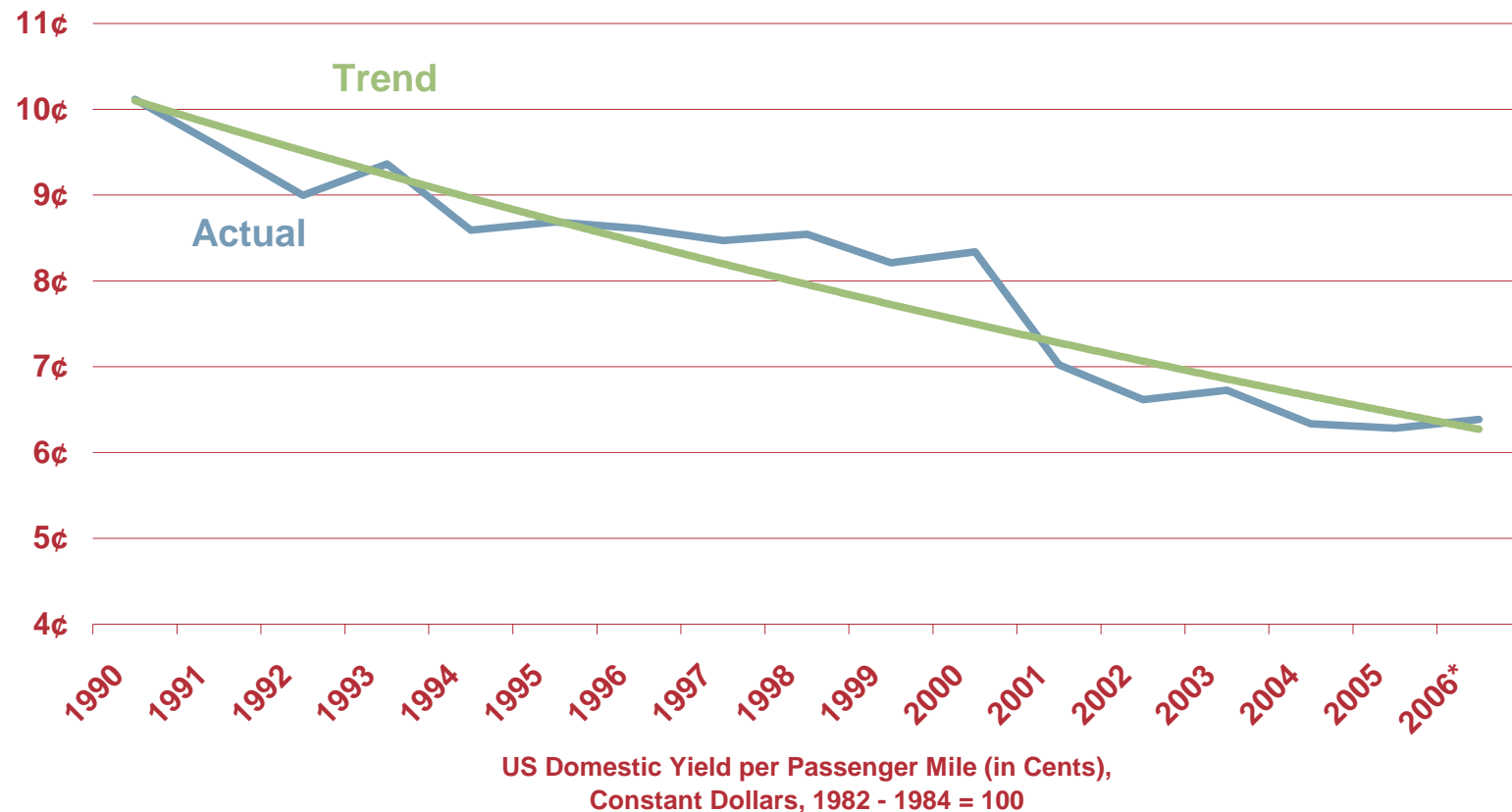


Domestic O&D Traffic – Prices Matter

In Constant Dollars Passenger Fares per Mile Have Been Declining for Eighty Years



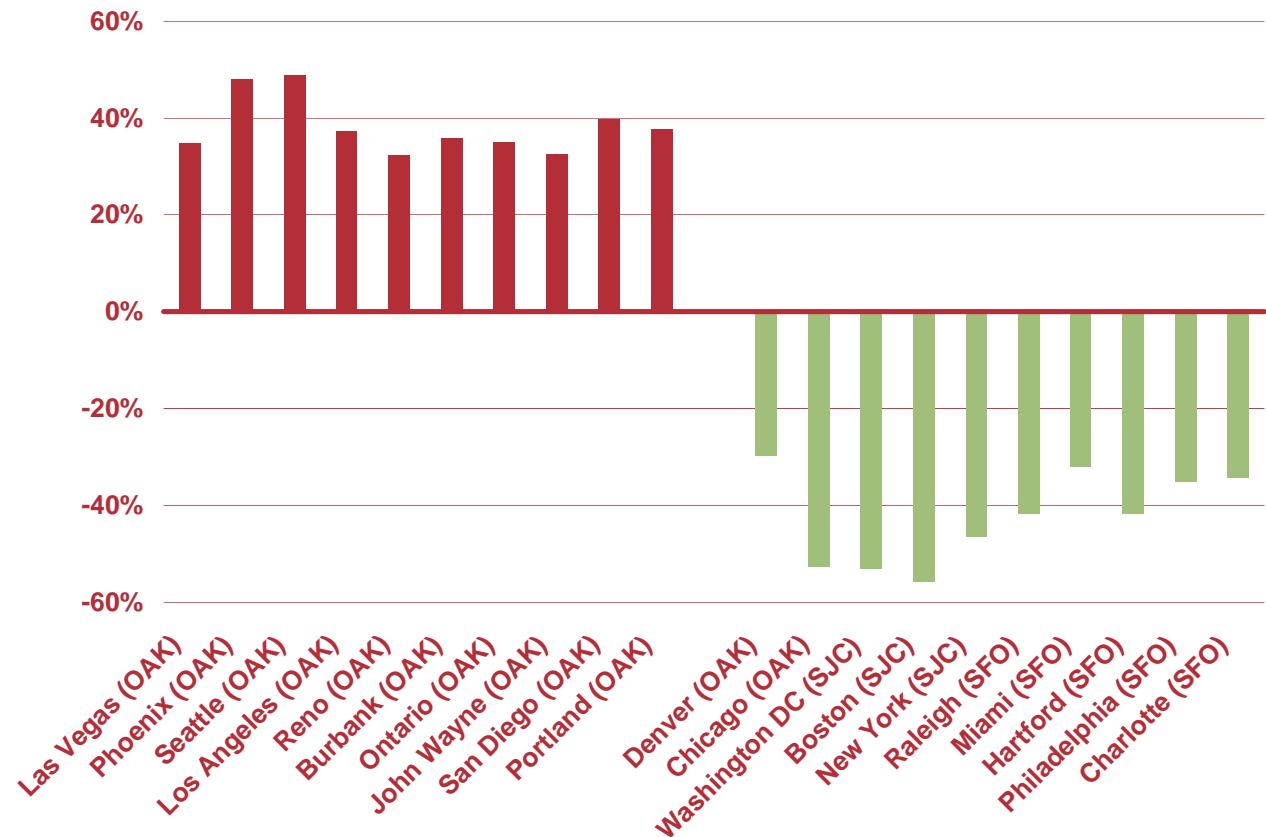
In Constant Dollars Passenger Fares per Mile Have Been Declining for Eighty Years



2000 vs. 2006

Southwest, the Price Maker in Bay Area Short Haul Markets, Has Taken Fares Up, Dramatically;

in Longhaul Markets, Competition Has Taken Fares Down, Also Dramatically

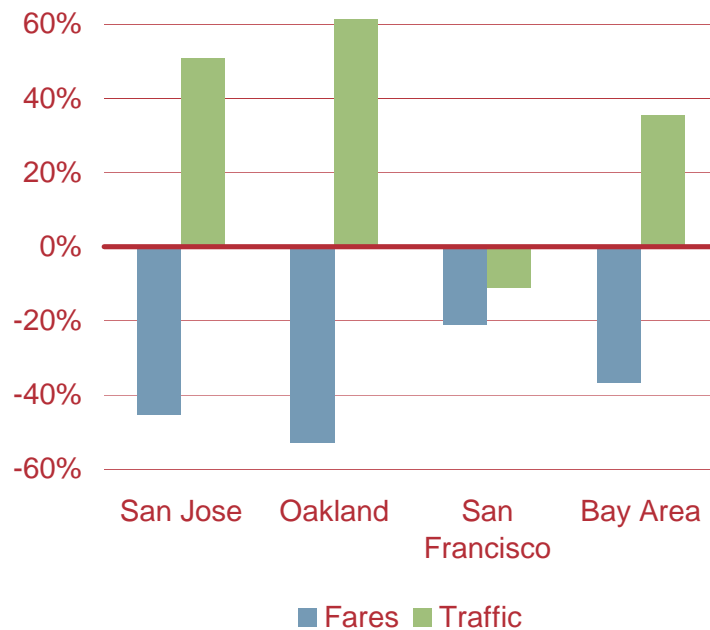


Fare Changes: 2000 - 2006

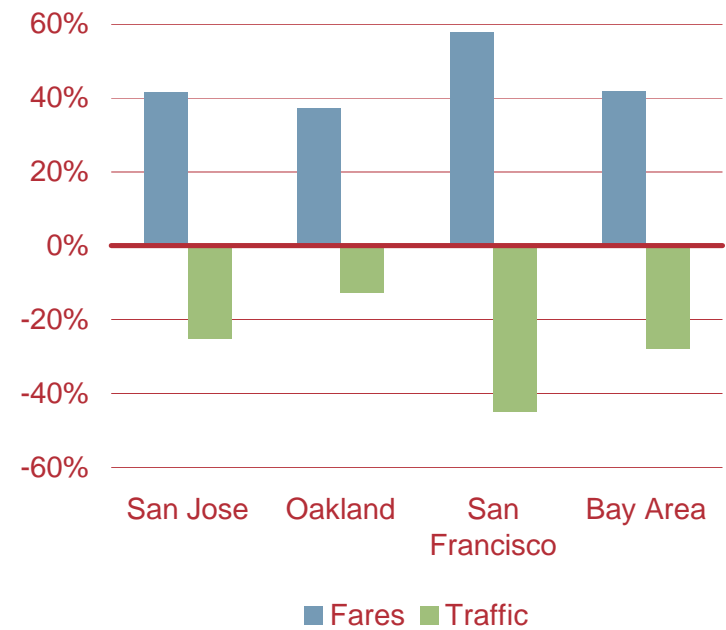
Fares Down, Traffic Up; Fares Up, Traffic Down

2000 vs. 2006

Chicago (both airports)

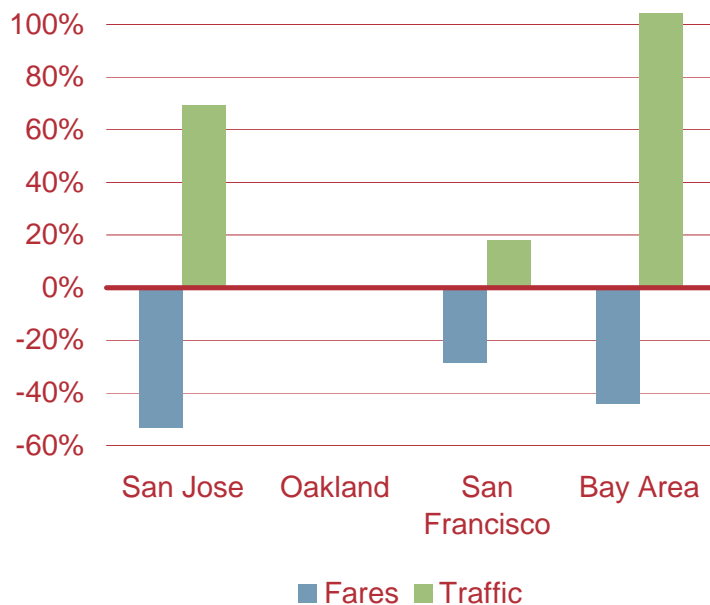


Los Angeles (LAX)



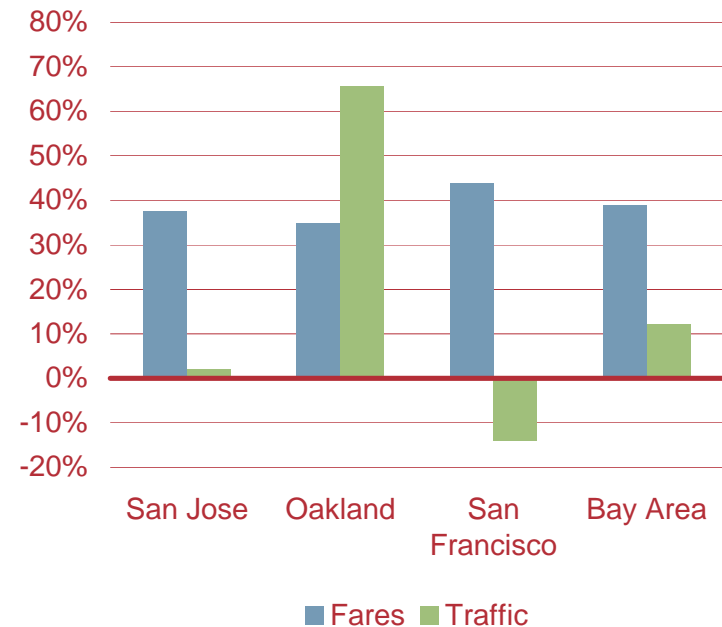
Fares Down, Traffic Up; Fares Up, Traffic Down 2000 vs. 2006

Washington



Not shown: Oakland – Washington:
Fares: 73% of Bay Area Average
Traffic: 37% of Bay Area Total

Las Vegas



Las Vegas is unstoppable!

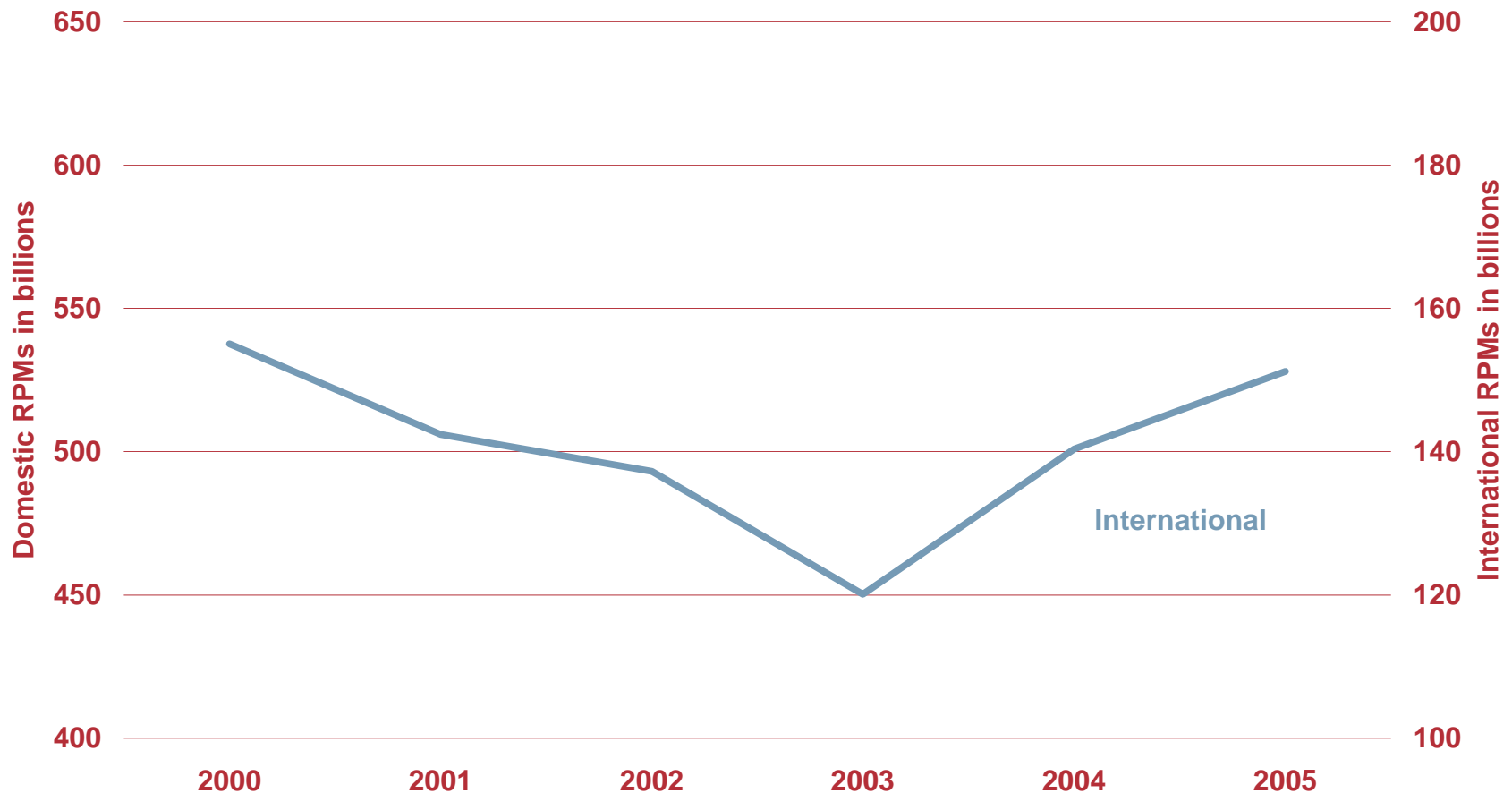
Connecting Traffic

International Traffic

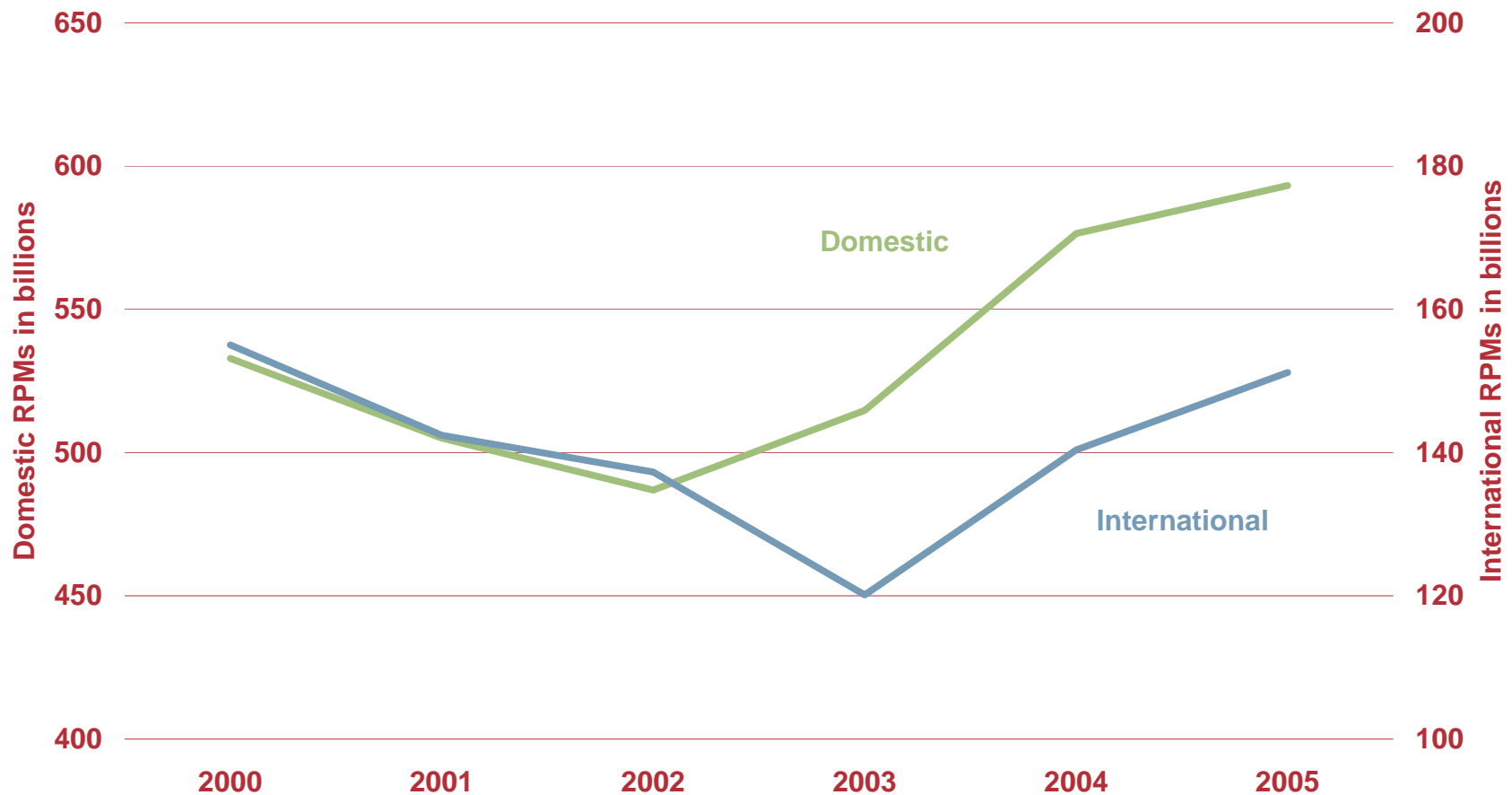
**Actual Bay Area International Traffic
For YE 1Q 2006 Was About 88% of the
Mid-range Forecast for 2005.**



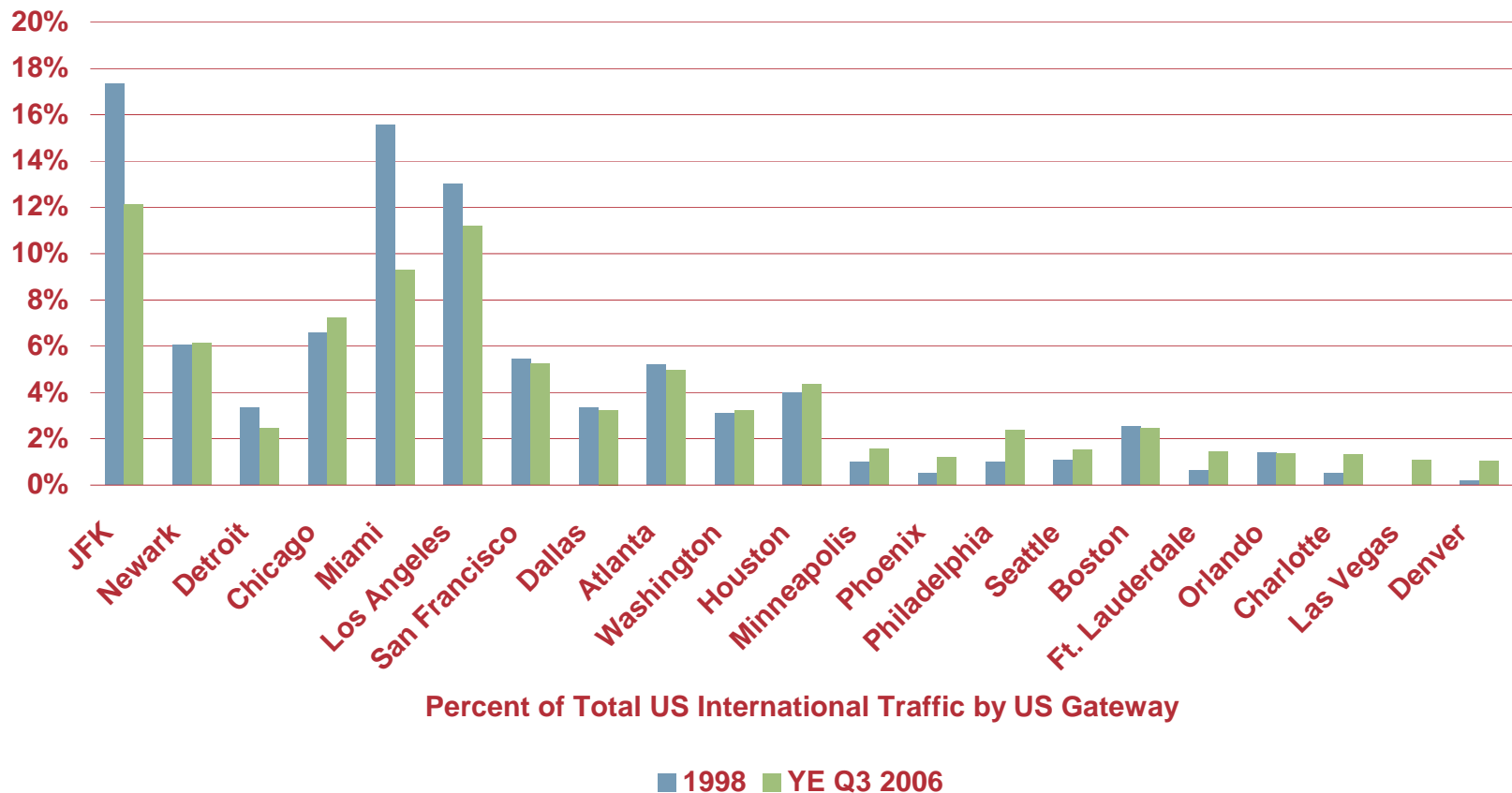
This is partly because international air travel to/from the United States has not yet recovered from 9/11



International air travel to/from the United States has not yet recovered from 9/11



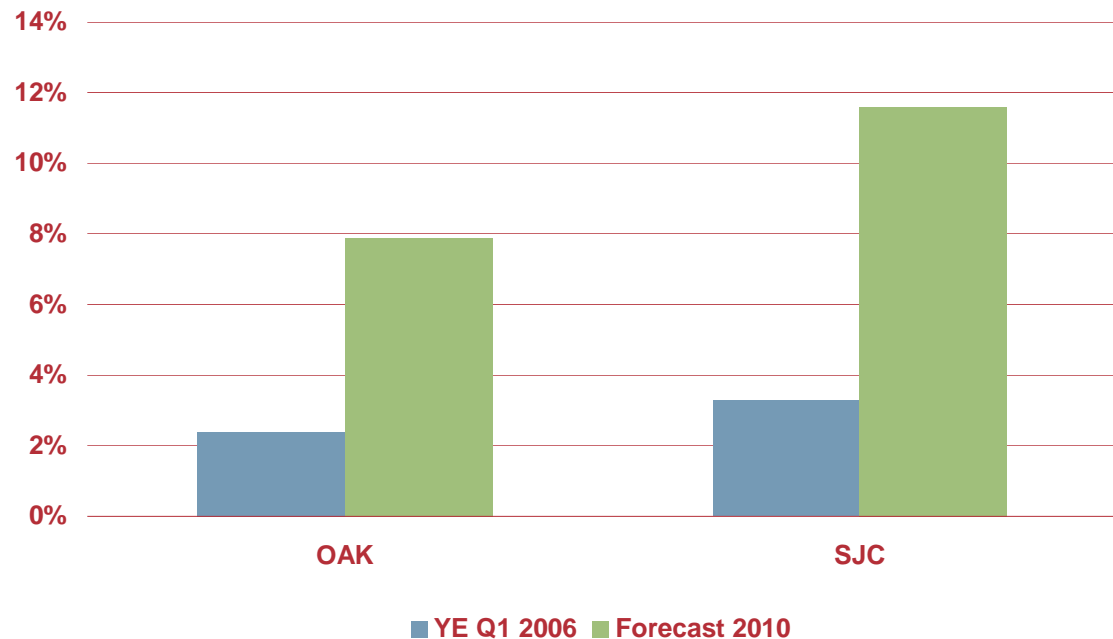
And Partly the Result of the Continued Rapid Growth of New Gateways



Our Forecast Distribution of Bay Area International Traffic Was Wide of the Mark.

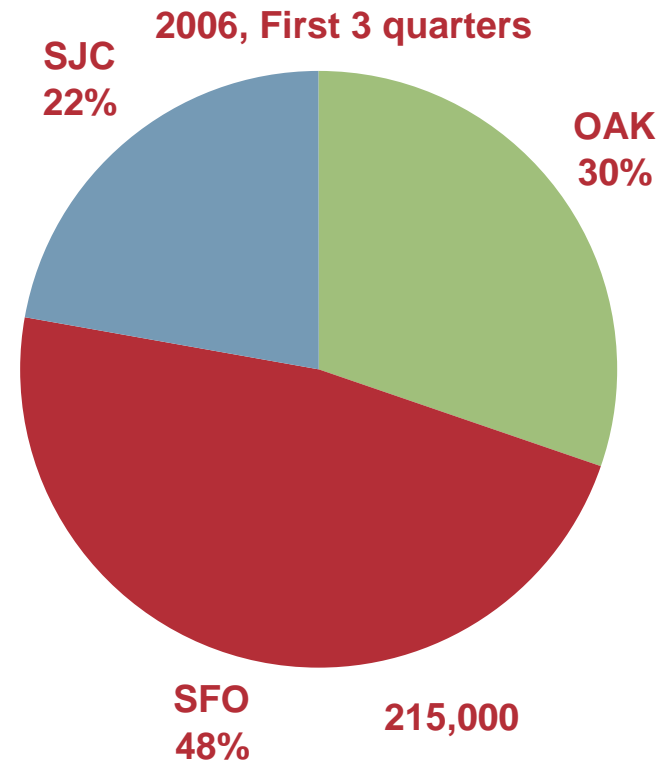
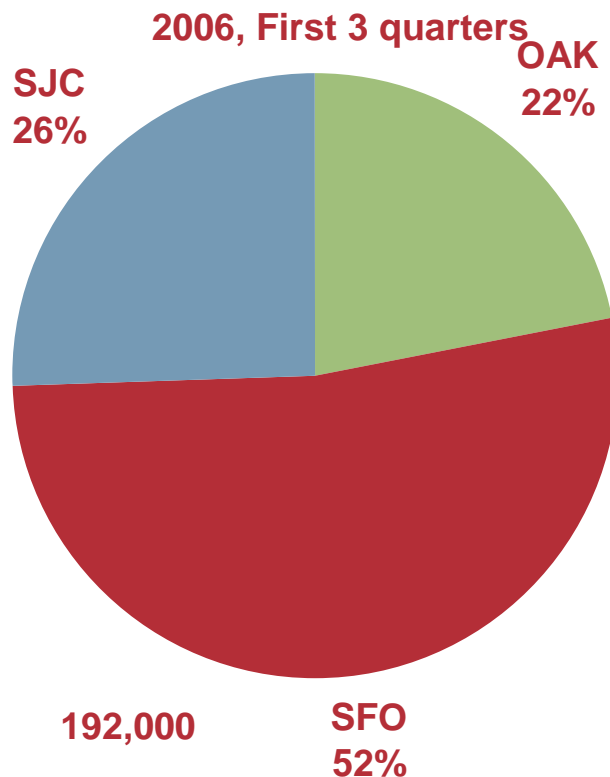
We forecast that in 2010 there would be:

- *900,000 international passengers at Oakland but in YE Q1 2006 there were only 200,000; and*
- *1.4 million at San Jose but in YE Q1 2006 there were only 275,000*



Operations

Bay Area airline departures have increased some; Oakland has been the big gainer



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